



DEPARTMENT OF THE AIR FORCE  
HQ WARNER ROBINS AIR LOGISTICS CENTER (AFMC)  
ROBINS AIR FORCE BASE GEORGIA

16 MAY 1997

MEMORANDUM FOR SEE DISTRIBUTION

FROM: WR-ALC/FM/PK

SUBJECT: Insurance Policy Buy Procedures

1. The AFMC LG/PK Acquisition Pipeline Inventory Reduction (APIR) Integrated Product Team (IPT) recommended using the Insurance Policy buy procedures when an item is being procured competitively and a first article test is required to qualify a new source. This policy was established at this ALC by WR-ALC/CC letter, Implementation of the Insurance Policy for First-Time Producers, dated 26 June 1991. Insurance Policy is a means to ensure delivery of needed supplies or repair while an unproven source becomes qualified. It is an excellent tool when some type of preproduction qualification is required. (Training was provided to IMs in 1991, and a refresher course was given in 1996).

2. The current directive for the Insurance Policy is contained in AFMCI-23-102, Purchase Request (PR) Operations, Chapter 10, Paragraph 10.2. Even though Paragraph 10.2.1 states "The Insurance Policy may be applied to purchases where all of the following conditions are satisfied", local policy is being changed to say that Insurance Policy buy procedures will be applied when those conditions as specified in paragraphs 10.2.1.1. through 10.2.1.4. exist. To ensure that these procedures are utilized to the maximum, Product Directors shall require justification any time these procedures are not utilized on investment item buys requiring a first article. A copy of the determination should be attached to the PR and provided to the PK buyer as part of the PR package. Instructions for including Insurance Policy in RFPs is contained in AFMCFARS 5317.7590.

3. Should you have any questions, please call us, or have your staff call our points of contact, Sammy Dame, FMLRA, 60862, or Sheila Paul, PKPB, 61924.

DAVID D. BURTON, SES  
Director  
Directorate of Contracting

1 Attachment  
AFMCI 23-102, Paragraph 10-2

70 41, Atch 97-11B (FAR 17) Post to AFMCFARS 5317.7590 (and AFMCI 23 102, para 10-2 if available) by circling the reference(s) and noting in the margin: "70-41, Atch 97-11B". Then file this atch behind the sups to FAR 17.

## PR FUNDING AND APPROVAL FOR ITEM BUYS

**9.1. Funding.** The initiator will fill in the complete "long line" accounting classification in block 13. Use the reverse side of the AFMC Form 36 as needed for continuation. Consult the division/directorate funds monitor or local financial management organization for assistance in identifying the correct funds cite. J023 uses data input by the requestor (the Program Year, BPAC, MPC, and CSN) and data from its files to prepare the accounting classification for the AFMC Form 306.

**9.1.1. Item number (column A):** Enter the line or subline item from block 8, column A.

**9.1.2. Accounting classification (columns B(1)-B(9)):** Enter all nine elements of the Standard Air Force Accounting Classification (SAFAC). These may be obtained from the authorized documents/program management directives.

**9.2. Approvals.** The initiator will sign and legibly print, type, or stamp his or her name, office symbol, and tele-

phone extension in block 14A. Additional signatures in the same format will be added in blocks 14B through 14F as required below. For J023 PRs, these signatures are on the "initial" PRs; the "final" PR need not be signed. PR/MIPR Control will forward one copy of the initial PR signed by the initiator and certified by Financial Management with the final PR to the contracting function.

**9.2.1. Routine (Priority R and E) PRs for D041, D062, and D039 items require no additional signatures on the PR itself. The approving authority signatures on the requirements computation document review and approval of the buy.**

**9.2.2. Urgent (Priority B, C, and D) and emergency (Priority A) PRs for D041, D062, and D039 items require review and approval by a locally designated management level (see para 8.4.1). This approval, as well as intermediate review, may be indicated in block 14.**

## Chapter 10

## SPECIAL PROCEDURES

**10.1. General.** This chapter provides guidance for special procedures which apply to certain categories of items or buys and are generally worked "off-line", or outside of the normal buy cycle process. PR initiators will find that these procedures often represent extra work with no immediate payoff. However, when applied in the appropriate circumstances there will be a measurable long-term benefit to the initiator, the center, and the Air Force. Supervisors and managers must recognize this in workload assignment and worker recognition.

**10.2. AFMC New Source Insurance Policy.** The principal aim of allowing new sources to compete for government contracts is to obtain the best possible price and performance, which will theoretically always occur in an open market competitive situation. A side effect of this situation, however, is that we are also exposing ourselves to increased risk should an unproven source's item not be functional. To guard against this, certain items (primarily complex or critical performance type items) require First Article (FA) testing and approval before the new source is given the go-ahead for production. Remember that the requirements systems produce buy notices based in part on an expected acquisition lead time (AQLT). If a FA test is required, the actual AQLT will almost certainly exceed that upon which the re-

quirement was based. This could translate to stock outages and degraded mission support. Some items can be delayed with minimal impact upon mission capability. Other items, however, are essential to the capability of the weapon system. For these types of items, we cannot allow the emphasis on competition to unduly jeopardize the logistics pipeline. The AFMC New Source Insurance Policy allows new sources to bid on such items while ensuring that we also have a contract in place with a proven source for the minimum quantity needed to maintain support. The proven source's contract also has an option for up to the total buy which can be exercised in the event that the new source cannot perform. Ideally, this can allow complete support with no break in supply. At the minimum, it allows us to avoid repeating the entire AQLT. If the new source cannot perform, we have an option in place and we are only production lead time (PLT) away from delivery.

**10.2.1. The Insurance Policy may be applied to purchases where all of the following conditions are satisfied:**

**10.2.1.1. A break in supply (that is, failure to deliver on schedule) would jeopardize support to operational units' mission capability.**

10.2.1.2. The item has an Acquisition Method Code (AMC) of 1 or 2 assigned, regardless of the Acquisition Method Suffix Code (AMSC).

10.2.1.3. The item is of such complexity or criticalness that a FA test is required to ensure that the new source is capable of producing a conforming part.

10.2.1.4. The buy will be processed under a routine Contracting Priority Code (E or R). (Note: Emergency or Urgent buys (A,B,C, or D) need expedited processing through the PR/Contracting process and are therefore not candidates for the Insurance Policy.)

NOTE: These criteria are established such that items which qualify for the Insurance Policy will also qualify for use of Authority (c)(1)) to Full and Open Competition (F&OC) for the Mission Essential Quantity (MEQ). A central point which must be supported in the justification for OTF&OC is that timeliness of the delivery is an essential element of the government's requirement, and that only one or a limited number of previously proven sources can satisfy the requirement when that factor is included.

10.2.2. How the Insurance Policy works. As shown in Figure 10.1, Case 1, the normal purchase is with a single producer who begins production upon contract award and delivers the item PLT later. The problem which the Insurance Policy is designed to address is shown in Figure 10.1, Case 2. In this case, the new source's FA test requirement will delay the delivery to a point beyond the Need Date (ND). At the ND, we will begin using assets from the safety level and/or experience backorders. Until delivery begins, the situation will worsen. An Insurance Policy buy, shown in Figure 10.1, Case 3, awards a portion of the buy called the Mission

Essential Quantity (MEQ) to the lowest-offering proven source. The MEQ is determined by using the procedures detailed below. Basically, it reflects the quantity to cover the added lead time to determine if the new source is capable of performing. The proven source also receives a variable option for up to the remainder of the buy in the case the new source fails FA. The new source receives a contract for the non-MEQ portion of the buy, structured as a FA-type contract. If the new source is successful we will receive deliveries from the two sources in time to avoid any break in supply. If the new source is not successful (we will know this at some point during the production of the MEQ), the proven source option will be exercised. The MEQ portion of the buy will be delivered at the original Required Delivery Date (RDD). If the new source evaluation is timely, the MEQ will provide support until the option quantity is delivered. Delay in evaluation may result in a break in supply, but this break will be minor compared to that which would result from the traditional contracting approach.

10.2.3. Activation of the Insurance Policy. The Insurance Policy provisions are activated only when an unproven source is the successful low offeror. (If a proven source is the low offeror, then of course it receives a contract for the entire quantity.) If the unproven source does provide a conforming product on schedule, it then provides the remainder of the non-MEQ quantity. If the unproven source fails to provide a conforming product on time, the proven source option for the remainder of the non-MEQ quantity is exercised. The MEQ provides a buffer to span the time until delivery of the option quantity begins.

10.2.4. IMSs will determine the MEQ as follows.

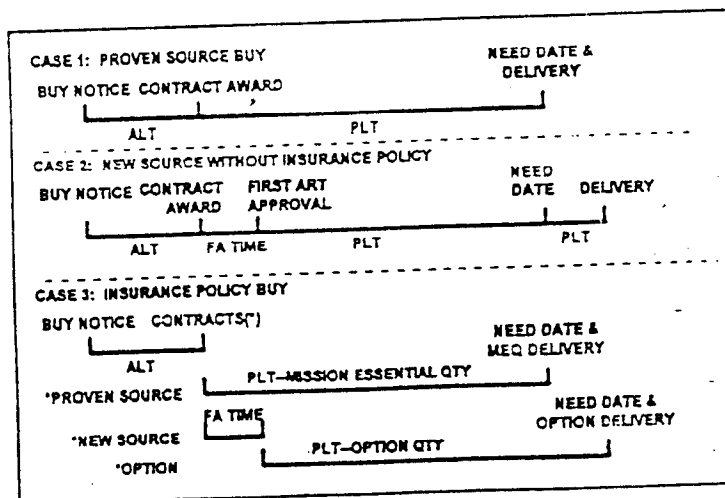


Figure 10.1. How the Insurance Policy Works.

10.2.4.1. Consumable Items (D062). Upon confirming that an item is a candidate for Insurance Policy buy procedures, the Inventory Management Specialist (IMS) will examine the PLT figures in the procurement history and confirm that the PLT used in the computation does

not reflect the PLT associated with first article testing. The IMS will compute the MEQ by multiplying the daily demand rate by the amount of time expected after contract award for determination of a new source's product acceptability. Use the most realistic time esti-

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 mates available (documented!) for FA tests of this or similar items in the recent past. If better estimates are not available, use 120 days. Note that this is an off-line calculation. The additional lead time will not be file maintained into D062, as future computations would then be inflated.

10.2.4.2. Investment Items (D041). Upon confirming that an item is a candidate for Insurance Policy buy procedures, the IMS will examine the PLT figures in the procurement history and ensure that the PLT used in the computation does not include PLT associated with first article testing. To determine the MEQ, the IMS will run a D041B "what if" recomputation with 180 days (or another figure, if more accurate and documented) added PLT. This figure represents the added PLT expected as a result of first article testing, or in another sense it represents the potential time lost should the new source prove incapable. The change in the buy quantity from the D041 to the D041B is the MEQ. DO NOT file maintain the revised lead time into the database, as future requirement computations would then be inflated. Should the total Acquisition lead time (ALT + PLT) exceed 36 months, an additive requirement is authorized IAW AFMCM 57-4. This additive would be input using the same "what if" D041B recomputation that is being used for the Insurance Policy MEQ calculation. Again, DO NOT file maintain this into the data base.

#### 10.2.5. Limitations on the Calculated MEQ.

10.2.5.1. MEQ Ceiling. In cases where the expected new source first article testing time exceeds the normal PLT, such as extremely complicated items or critical nuclear surety items, it is possible to have a calculated MEQ which exceeds the current buy quantity. In such cases, the Insurance Policy cannot be applied because the MEQ cannot exceed the current buy quantity, and this limitation would cause another buy notice to be initiated before the new source first article testing was completed. Solicitation and contract management under such circumstances would be extremely difficult. Rather than applying the Insurance Policy to such items, source qualification should be worked apart from the requirements buy.

10.2.5.2. MEQ Floor. In certain situations (principally D041 items with exceptionally low condemnation rates), the procedure may yield a calculated MEQ of zero. Since the proven source must be presented with some basic quantity upon which to bid in order to establish an Insurance Policy option, the MEQ will be adjusted as necessary to be no less than 10% of the buy quantity (rounded up to the nearest unit).

10.2.6. Requesting Use of the Insurance Policy. To request the use of the Insurance Policy, the IMS will enter the MEQ as a separate line item, with Remarks Text for the line item identifying it as the MEQ. A note to the buyer will state that "Line Item \_\_\_ is the Mission

Essential Quantity needed to assure critical support while first article testing is accomplished. MEQ is based on completion of first article testing/verification within \_\_\_ days of contract award (see attached schedule).

Critical mission requirements prohibit any slippage without prior IMS approval. Failure to satisfy delivery and testing requirements on schedule will result in the proven source option being immediately exercised. The referenced schedule should be reflected on the AFMC Form 260, *First Article Requirements*. Further marking instructions (Ship to/Mark for) for the FA line item must include a requirement on the contractor to identify it as an Insurance Policy item. This will provide the needed visibility upon receipt of the FA to expedite the testing of the FA. A Justification and Approval (J&A) for the requirement will be submitted with the PR. This J&A will be used only in the case where an unproven source is the lowest-offeror. Given this situation, there will be two actions (one definite and one potential) covered by the J&A. The first action (definite) will be the award of the MEQ using FAR 6.302-1 (Only One or Limited Number of Responsible Sources). This action will always be applicable for an insurance buy when an unproven source is the lowest offeror. The second action (potential) covered by the J&A will be the proven source's option, exercised if (and only if) the unproven source fails to meet the FA requirements stated in the contract. In this situation, the balance of the requirement will be awarded to the proven source using FAR 6.302-1.

10.2.7. Enforcement of Insurance Policy Provisions. Once an Insurance Policy contract is in place, the IMS and buyer must ensure that all activities are complying with its terms. It is critical that contractor actions (i.e., delivering the First Article sample) be completed on time. If the new contractor is not complying with the schedule, the proven source option must be promptly exercised to maintain mission support. It is equally critical to the success of this process that the government not exceed its allotted time standards used to derive the MEQ (i.e., testing the First Article). To this end, each ALC must maintain a procedure which allows Insurance Policy FAs to be expedited through the testing process and the pass/fail decisions made within the time allowed for by the PR's MEQ. Advance notification of the incoming FAs to the test facilities is required so that appropriate workload scheduling decisions can be made. For these critically important items, intensive management attention is warranted.

~~10.3. Direct Vendor Delivery/Just In Time. Paragraph 8.6 defines AFMC direct shipment policy which pertains to support of current backorders. One of the objectives of that policy is to reduce second destination transportation and depot handling costs. Direct Vendor Delivery (DVB) and Just In Time (JIT) are broader applications~~